

February 8, 2002

VIA MAIL AND E-MAIL
TARA.DUNN@DGS.CA.GOV

California Power Authority
901 P Street, Suite 142A
Sacramento, CA 95814

Re: Comments of Caithness Energy on Draft Investment Plan

Dear Sir or Madam:

Enclosed are the Comments of Caithness Energy on the Draft Energy Resource Investment Plan of the California Consumer Power and Conservation Financing Authority. To ensure that the CPA receives these comments by February 8, 2002, as requested, I am also sending the CPA a copy of these comments by e-mail today.

Very truly yours,

GOODIN, MACBRIDE,
SQUERI, RITCHIE & DAY, LLP

By

Brian T. Cragg

**BEFORE THE CONSUMER POWER
AND CONSERVATION FINANCING AUTHORITY
OF THE STATE OF CALIFORNIA**

**COMMENTS OF CAITHNESS ENERGY ON THE DRAFT
ENERGY RESOURCE INVESTMENT PLAN OF THE
CALIFORNIA CONSUMER POWER AND CONSERVATION
FINANCING AUTHORITY**

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Date: February 8, 2002

Attorneys for Caithness Energy, L.L.C.

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FINANCING AUTHORITY**

At the invitation of the Consumer Power and Conservation Financing Authority of the State of California (“CPA”), Caithness Energy, L.L.C. (“Caithness”) submits its comments on the document entitled “Clean Growth: Clean Energy for California’s Economic Future,” the Draft Energy Resource Investment Plan of the CPA, dated January 18, 2002 (the “Draft Plan”).¹

Caithness is one of the largest providers of renewable energy in California, with ownership interests in about 800 megawatts (“MW”) of geothermal, wind, and solar projects. Caithness is obviously pleased that the Draft Plan places an emphasis on promoting the growth of renewable energy resources in the state.

Caithness agrees with the Draft Plan’s conclusion that the state faces considerable challenges if it is to meet the Governor’s goal of expanding renewable energy’s contribution to the state’s electric power portfolio to 17% by 2006. The CPA

¹ Caithness is a member of the Independent Energy Producers Association and concurs with the comments IEP submitted on the Draft Plan on February 1, 2002.

can assist in meeting that goal by providing creative approaches to facilitating the financing of renewable energy projects.

Caithness offers the following comments on three topics raised in the Draft Plan.

Stable Markets: The Draft Plan recognizes that new renewable projects need stable markets for their output (Draft Plan, p. 17), but the CPA should also be aware that many existing renewable projects sell their power to the investor-owned utilities under contracts that expire in the next few years. By helping to establish stable markets for renewable power, the CPA will not only assist new renewable development, but also help ensure that existing renewable projects continue as an important component of the state's electricity portfolio. Caithness supports the Draft Plan's conclusion that a requirement, developed by the Legislature or the Public Utilities Commission, that load-serving entities must supply their customers with a specified percentage of renewable power is a simple and straightforward way to help build a stable market for renewable energy. (Draft Plan, p. 17.) In addition, Caithness notes that existing renewable generators have demonstrated, through their production and their longevity, the usefulness of contracts in creating a stable market for renewable power.

High Capital Costs: The Draft Plan also recognizes the obstacles new renewable power projects face related to their financial structures. (Draft Plan, p. 17.) When compared to conventional fossil-fired power plants, the financial structure of renewable energy projects is typically characterized by high initial capital costs, relatively high operation and maintenance costs, and low fuel costs. This financial

structure may not mesh well with prices in energy markets that typically reflect the financial structure of conventional natural gas-fired plants, *i.e.*, low initial capital costs, high fuel costs tied to volatile natural gas prices. The CPA can play a significant role in helping integrate the more stable financial structure of renewable projects with volatile electricity market prices. Well-designed programs to leverage the CPA's financial assistance for renewable power will help assure the continuing financial viability of renewable projects.

Transmission Financing: The CPA can leverage its financial assistance for renewable power in other ways. The Draft Plan recommends that the CPA should seek the authority to assist in the financing of transmission facilities that are necessary to relieve congestion or to ensure system reliability. (Draft Plan, p. 37.) However, the renewable resources that provide the fuel for renewable generation facilities are often located in remote areas that are poorly served by the local utility's existing transmission and distribution system, and improvements to the transmission system in these areas can release the potential for substantial amounts of additional renewable generation. For example, Caithness has an interest in wind power projects in the Tehachapi area, where the limitations of the existing transmission system prevent the development of any new wind projects in the area and frequently force existing projects to curtail their generation. Generators in the area have indicated that removal of this transmission constraint would permit the development of over 1000 MW of new wind power and would eliminate the curtailments that plague existing wind generators. A study of a possible new transmission line in the area is currently underway. If the CPA could assist in the

financing of a new transmission line in the Tehachapi area, the resulting increase in renewable generation would go a long way toward meeting the Draft Plan's goal of adding 8000 MW of renewable power by 2006. Similar transmission-related limitations on renewable energy exist elsewhere in the state.

Thus, if the CPA's transmission financing authority is restricted to upgrades needed to relieve congestion or ensure system reliability, the CPA could lose the opportunity to promote renewable power by improving transmission to the areas where the renewable resources are located. The CPA should ensure that any transmission financing authority it obtains from the Legislature is broad enough to allow the CPA to assist in the financing of transmission (and distribution) projects like the proposed Tehachapi line described above.

Caithness appreciates the opportunity to comment on the Draft Plan, and looks forward to working with the CPA to refine the Draft Plan and to expand the contribution of renewable power to the state's electricity portfolio.

Respectfully submitted,

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